Strengthening Small Business in the 90s

Report of The Task Force on Small Business Programs and Services

Province of British Columbia
Ministry of Regional and Economic Development
HONOURABLE STANLEY B. HAGEN, MINISTER

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MESSAGE FROM THE MINISTER

It is my pleasure to provide you with a copy of the report of the Task Force on Small Business Programs and Services.

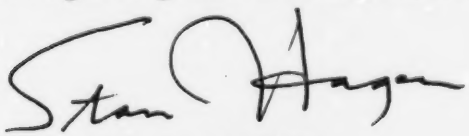
I would like to congratulate the Co-Chairmen, Ivan Messmer, Minister of Parks, and Dan Peterson, Langley MLA, and the other members of the Task Force for their excellent work. The findings of the Task Force are the result of long deliberations and input from a variety of community leaders and business associations throughout the province.

Small business is a vital economic factor in our province, and a key to long-term, sustainable economic development. The provincial government wishes to optimize the mix of effective programs and services which compliment small business development endeavours throughout British Columbia and assist them to prosper. This report will serve as an important step in that process.

The report touches on a wide range of topics which outline the challenges for small and medium sized enterprises. At the same time, the government functions in an overall economic, policy and budget environment, and is faced with many issues and calls for action or expenditure. Sound fiscal policies, such as a balanced budget, and strengthening of social services, mean that the government must make trade-offs and set priorities. Encouraging small and medium-sized business while addressing other priority areas for the Government is the challenge we face.

I welcome your comments or observations on the Task Force findings. In addition, my Ministry staff will be meeting with a number of community and business groups in all regions of the province over the coming months to seek comments on this report.

Strengthening small business in the 90's is everyone's business.



Honourable Stanley B. Hagen
Minister of Regional and Economic Development

January 1990

The Honourable Stanley B. Hagen
Minister of Regional and Economic Development
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Mr. Hagen

We, the Chairmen and Members of the Task Force on Small Business Programs and Services, are pleased to present to you a copy of the Task Force findings.

Sincerely,

Honourable Ivan Messmer
Minister of Parks
Task Force Co-Chairman

Dan Peterson, MLA
Langley
Task Force Co-Chairman

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TASK FORCE MEMBERSHIP

Task Force members come from a wide variety of regional and sectoral interests.

Co-Chairmen:

Honourable Ivan Messmer, Minister of Parks
Dan Peterson, M.L.A. - Langley

Members:

Richard Allen	Chief Economist, B. C. Central Credit Union
Randy Black	Head of the Thompson-Nicola Manufacturers' Association
Oksana Exell	Coordinator for International Competitiveness, Ministry of International Business and Immigration.
Dawn Henderson	President, Kanada Bias Inc.
Rick Jensen	Mayor of the City of Cranbrook
Hugh Kay	Past President, Electronic Manufacturers Association of B. C.
Doug Kerley	Vice President of the Federal Business Development Bank for B.C./Yukon
Henry Litzenberger	Formally head of the Peace-Liard Development Association
Neil MacDonald	President, Sylvan Industries Ltd.
Chris Nelson	Assistant Deputy Minister, Business Development Division, Ministry of Regional and Economic Development
Kathleen Sanderson	Canadian Federation of Independent Business, B. C. and Yukon
Colin Smith	Past President of the B. C. Chamber of Commerce

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EXECUTIVE SUMMARY

The Task Force believes that Provincial Government policies and programs aimed at improving the economic health of British Columbia's small and medium sized firms are a critical dimension of the Province's overall economic development strategy. In order to assist the small and medium sized business community in British Columbia to achieve a firm economic foundation to enter into the 1990's, the Task Force submits a series of recommendations grouped into three categories - access to capital; access to business advisory services; and recommendations to create and maintain a favourable climate for small business.

TASK FORCE RECOMMENDATIONS REGARDING ACCESS TO CAPITAL FOR SMALL BUSINESS

Detailed financial information on small and medium sized enterprises in B.C. and other information generated by the Task Force, tells a very consistent story. Excessively high levels of debt, the narrow equity base and low levels of retained earnings despite very acceptable levels of sales, have resulted in a situation in which small firms experience extreme difficulty growing past the small scale production stage due to the pressure of debt servicing and repayment obligations, and low levels of productivity- enhancing investment in new machinery and equipment. In order to help small firms achieve a sound, underlying financial structure which will enhance their growth potential, the Task Force makes the following recommendations:

1. Introduction of a new Loan Guarantee Program for start-up firms to be delivered by financial institutions.

2. Replace the Regional Seed Capital Program with a selective loan guarantee program for working capital.

3. Enhanced promotion of the Ministry's existing Equity Market Programs.

4. Create community based Venture Capital Corporations, using a phased approach.

5. Maintain the Small Business Incentives Program, even on a provincial - only basis.

6. Determine the feasibility of facilitating the flow of equity capital through public stock exchanges.

TASK FORCE RECOMMENDATIONS REGARDING ACCESS TO BUSINESS INFORMATION AND ADVISORY SERVICES

In order to facilitate the flow of relevant information to the small business community in British Columbia, the Task Force recommends:

1. Expand, to all regions of the Province, the present pilot project which is working to consolidate business advisory services regionally.

2. Use conditional funding to ensure community support and cooperation for consolidated business advisory service delivery.

3. Continue support of Ministry information and advisory services that are community driven.

4. Expand the scope of business information programs to provide better market opportunity information.

TASK FORCE RECOMMENDATIONS ON BUSINESS CLIMATE ISSUES

The Task Force realizes that a host of economic issues - many of which are outside of the Province's control - ultimately can effect the economic health

of even the smallest business in the most remote areas of the Province. The Task Force has identified several issues
which inhibit the economic well being of small business, and recommends:

1. Remove the 6 percent Social Services Tax on machinery and equipment purchased by small businesses.

2. The Federal Goods and Services Tax as currently proposed should be withdrawn.

3. Property taxes on the commercial/industrial base must remain competitive with other jurisdictions.

4. The Province should build on existing programs of procurement at all levels, i.e., provincial, federal, local, and other agencies.

5. The Provincial Government should continue and enhance its efforts to provide information on market opportunities created by the Free Trade Agreement (FTA) and information on the changing business environment created by the FTA itself.

6. The Province should encourage closer cooperation between the small business community and the education system, at all levels.

7. The Province should use its best efforts to reduce the level of paperburden on small business.

CHAPTER 1

THE CURRENT STATE OF SMALL BUSINESS IN BRITISH COLUMBIA

WHY A TASK FORCE?

It is widely accepted that the greatest opportunities for regional economic diversification and job creation will come from the small and medium-sized business sector, specifically the start-up and expansion of local firms building on entrepreneurial talents and increasingly competing in international markets. The rising importance of small and medium-sized firms, in combination with major recent Provincial and Federal Government initiatives such as the Canada/U.S. Free Trade Agreement and the forthcoming expiry of the current Economic and Regional Development Agreement (ERDA), have created a unique opportunity for the Task Force to contribute to the development of an enhanced Provincial small business strategy for the 1990's.

The specific purposes of the Task Force are threefold:

- To independently review the Ministry's small business financial incentive and business advisory services in terms of their scope, rationale and ultimate value to small business establishments.

- To seek input on the program needs of small business in the 1990's.

- To suggest a strategy for improving and restructuring the financial programs, business information and advisory services and delivery mechanisms involved in regional economic development.

THE ECONOMY IN TRANSITION

The first half of the 1980's was a traumatic period for the economy of British Columbia. The sustained period of high interest rates which necessarily resulted from the accelerating inflation levels of the late 1970's , ushered in a nation wide collapse of economic activity - the worst destruction of gross national product (GNP) since the depression of the 1930's. No province of the country, and no sector of the economy, escaped the effects of the collapse, but a host of provincial statistics on employment, investment, bankruptcy and labour migration will support the contention that the recession hit the British Columbia economy particularly hard, and its negative effects were long lasting, especially in communities outside of the metropolitan areas of Victoria and Vancouver.

The Province, and the various local economies which collectively make up the provincial economy, emerged from the devastating effects of the 1981/86 period fundamentally changed. While commodity resource products such as dimension lumber, plywood, pulp and paper, metallic and non-metallic ores still constitute the core outputs for the Province in terms of income and wealth creation, their contribution to employment creation has been drastically diminished by the continuous process of labour shedding due to mechanization and automation.

The result has been a significant shift in employment growth from the primary and manufacturing sectors towards the so-called service industries comprising everything from wholesale and retail trade to business and professional services. Simultaneously with the relative shift in employment growth from the primary and manufacturing sectors to the service industries, has occurred a noticed shift in the importance of small and medium sized businesses as generators of new jobs. The importance of small and medium sized enterprises as the engine of the job creation process is true for both the manufacturing and service industry sectors, and is supported by statistics showing that small firms (defined as those having fewer than 20 employees) accounted for 85% of the new private sector jobs created in Canada between 1978 and 1986.

For British Columbia specifically, data produced for the Task Force show that there are approximately 69,000 incorporated firms in B.C. with sales between $10,000 and $20 million annually. Collectively, these small and medium sized firms generate $36.9 billion in yearly gross operating revenue, and pay out $6.9 billion per year in wage payments to owners and employees. The wage and salary income created by the Province's small and medium sized enterprises is extremely important in that it represents nearly 40% of the total wage and salary income generated by all private sector enterprises in the Province. Thus, government policies and programs targeted at improving the economic health of small and medium sized enterprises are a critical dimension of the Province's economic development strategy, and desire to ensure that the small and medium sized business community in B.C. has a firm foundation to enter into the 1990's.

TWO MODELS OF ECONOMIC DEVELOPMENT

At the possible risk of some oversimplification, it is possible to identify two different approaches used by the government to speed up the process of economic development.

- Industrial recruitment, also referred to as "smokestack" or "microchip" chasing which aims at attracting new and usually large investments from outside of the Province.

- Entrepreneurial and small business development which emphasizes indigenous economic growth through programs and services which promote small business start-ups, and the expansion and development of firms already located in the area.

In the industrial recruitment model, economic development departments compete for the branch or relocation of large, stable employers almost always in the manufacturing sector. The primary government tools used to attract major investment projects into the Province include assistance with financing, favorable tax and regulatory treatment and the provision of necessary physical infrastructure such as road, water, and sewer extensions.

In contrast, the entrepreneurial and small business development model suggests that economic development officials should focus their attention on the job creation possibilities that exist in small and medium sized firms by adopting risk-oriented, innovative and flexible ways of promoting small business start-ups and the growth of firms already located in the area. The primary instruments of support aim at increasing the supply of active entrepreneurs through such policies as business information, education and mentor programs, helping existing businesses to survive by improving access to financial support and business and management information programs, and building a network of community development organizations.

The Province currently operates programs under both the industrial recruitment and aid to the indigenous business models of economic development. Given the focus of the Task Force on small and medium sized firms in the Province, attention will necessarily focus on the aid to indigenous firms model.

INFORMATION AVAILABLE TO THE TASK FORCE

In the past three or four years the Ministry has undertaken several reviews of its programs and services. The most recent of these reviews were two independent studies commissioned in 1988. The first was a review of the plethora of business information and advisory services in the Province, and the second dealt with making financial programs more responsive to the regions. The substantial material contained in these two reports and their recommendations formed core information available to the Task Force on financial incentives and business information programs.

A third source of information was a detailed financial profile of small and medium sized companies in B.C. with the comparative position of firms in the eight economic development regions and Canada as a whole. The source of this data is Revenue Canada taxation files for incorporated firms earning between $10 thousand and $20 million yearly. The report is contained in Appendix B.

A fourth source of information was provided by inviting all municipalities in the Province to submit briefs to the Task Force. These briefs were presented to Task Force members at the Union of British Columbia Municipalities convention in Penticton in September 1989, and were a valuable source of community input to the Task Force.

The fifth source of information available to the Task Force consisted of the knowledge and expertise of individuals as members of the Task Force.

The sixth source of information was obtained from individuals and organizations who were not members of the Task Force, but have an important role to play in the process of economic development. This information was obtained by the Advisor to the Task Force, and presented to Task Force members. A listing of these contacts is contained in Appendix C.

Finally, information was provided by the Ministry through a compendium of information on current statistics and operational guidelines of all its programs.

CHAPTER 2

THE PROVISION OF, AND ACCESS TO CAPITAL FOR SMALL BUSINESS

BACKGROUND

The financing of small business creation and expansion is a vital aspect of British Columbia's ability to create jobs, diversify the economy, and compete effectively in an international trading environment. Every study on the topic of constraints to small business creation and growth identifies lack of financing on acceptable terms as a major source of concern for many small businesses.

Small firms in B.C., defined as those having $2 million or less in annual sales, require approximately $3.4 billion annually in additional debt and equity capital, an average of $51,000 for each small business in B.C. For the most part, the process by which the $3.4 billion annually is sourced proceeds relatively smoothly with the required financial intermediation services provided by banks, credit unions, venture capital corporations, organized stock exchanges, informal individual investors and relatives/friends.

The sources of debt and equity funds available to small business, and their approximate relative importance for small firms in B.C., are as follows:

- Funds provided by operations, after paying current operating expenses, i.e., retained earnings (29%).
- Increases in long-term debt from external sources (27%).
- Additional equity (1%).
- Shareholder loans and advances, i.e., debt capital raised from internal sources (19%).

- Sale of fixed assets and investments, i.e., liquidation of investment (23%).

- Government grants and other sources (1%).

Thus, the most important source of internally generated funds for small business is retained earnings from current operations (29%) followed by the liquidation of investment (23%) and additional injections of owner equity (1%). Together, these internally generated sources of debt and equity capital account for 53% of the total funds sourced by small business establishments in B.C.

Externally sourced debt and equity funds make up the remaining 47% of the funds sourced annually by small businesses. The increase in term debt is by far the most important type of externally sourced funds (27%), followed by additional loans from shareholders (19%) and government grants and other sources (1%).

Government provided financial support is the least important source of funds available to small companies. However, the role of government provided financial support remains strategic in that it can have an important leverage affect on the ability of small business establishments to both start-up and attract funds from other sources.

A small firm's need to obtain debt and equity funding from external sources depends critically upon the level of internally generated funds which in turn depends upon a host of macroeconomic and management variables which can be collectively grouped under the heading of "business climate". Thus, for example, macroeconomic changes in the value of the Canadian dollar, or policy induced changes such as levels of small business taxation, interact to influence the level of internally generated funds, and hence, affect the firm's need for external funding. Chapter 4 of the Task Force Report will examine some specific dimensions of the business climate issue which are thought to have an important influence on the financial health of small firms in B.C.

Despite some modest inroads by the credit unions, the major charter banks remain the most important source of term debt in both B.C. and Canada as a whole. Thus, analysis of the process by which funds are channelled from investors to small businesses necessarily involves an understanding of the structure, conduct and performance of the chartered banks in B.C.

An appropriate level of equity financing for small business represents the bedrock upon which a financially successful small business must be launched and expanded. External equity funding is potentially available from both formal and informal mechanisms. Formal channels of externally sourced equity capital include venture capital companies and organized stock exchanges, while informal vehicles include funds from relatives and friends (dubbed "love money") and wealthy individual investors (dubbed "angels").

Small and medium sized businesses have financing needs at virtually every stage of their birth and growth process. The exact type and level of funding changes with each stage of the companies' development and the type of product or service produced. Funding needs may be divided into the following stages:

- **Seed Funding** - These funds are required prior to the start-up of a new enterprise. They are used to produce a formal business plan, marketing study, or construction of prototypes and market testing. The necessary funds for pure seed activities are provided from the principals themselves and from the informal equity market of friends, relatives and wealthy individuals.

- **Start-up Funding** - During the start-up phase, additional funds are required to construct initial production and marketing facilities, and to hire the necessary personnel. Companies may be in the process of being organized, or they may have been in business for a short time - less than one year - but not have sold their product commercially. Frequently, at this stage the firm's primary motivation is to generate an income for its owner(s).

- **First Stage Financing** - Financing provided to companies that have expended their initial capital - often in developing and market testing a prototype - and require funds to initiate full scale manufacturing and sales.

- **Second Stage Financing** - Working capital for the initial expansion of a company which is producing and shipping, and has growing accounts receivable and inventories. Although the company has clearly made progress, it may not yet be showing a profit. At this stage, firms are filling market niches left open by the large companies, and capital is required to continue rapid growth into successive market niches. Thus, the firm's financial needs for equity, debt and mixed debt/equity instruments are unique to each firm, and may be quite sophisticated, involving venture capital corporations and the major banks.

- **Third Stage Financing** - Funds provided for major expansion of a company whose sales volume is increasing, and that is breaking even or profitable. These funds are utilized for further plant expansion, marketing, working capital, or development of an improved product.

- **Bridge Financing** - Financing for a company expecting to go public within six months to a year. Often bridge financing is structured so that it can be repaid from the proceeds of a public underwriting. It can also involve restructuring of major stockholder positions through secondary transactions. Restructuring would be undertaken if there were early investors who wanted to reduce or liquidate their positions, or if management, their relatives and associates, were to be bought out to relieve a potential oversupply of stock when public.

The speed and ease with which firms pass through the various financial phases from seed to bridge stage funding depend in large part on the efficiency of local capital markets in channeling savings into investments. Because the job creation process depends critically on the operations of small and medium sized businesses, government has an obligation to ensure that the necessary local capital markets both exist and operate efficiently. If the required financial markets either do not exist in British Columbia, or operate imperfectly, the firm's transition from one financial stage to the next is impeded, with the result that many potentially viable enterprises die prematurely and/or are unable to reach medium size.

In the market for equity capital, there is an acknowledged shortage of private venture capital at the seed and start-up stages, i.e., equity investments under $500,000. Venture capital companies do not usually operate in this "early stage" segment of the equity market because the costs of "due diligence" (screening, evaluating and structuring an equity investment) for a small project are approximately the same as for a larger investment despite the lower potential of return.

The due diligence requirement is less relevant in the informal segment of the equity capital market where the investor may have information on the honesty, integrity, management skills and marketing knowledge of the entrepreneur but the level of financing potentially available can be difficult to piece together, and seldom exceeds $50,000. Thus, the lack of small parcels of venture capital is an identified gap in the financial markets, and often results in the creation of under capitalized and over leveraged companies who are extremely vulnerable to even minor fluctuations in the level of operating revenues, or interest rate increases.

In the market for debt capital, i.e., business term loans and lines of credit, Canadian banks and, to a lesser extent, other financial intermediaries are primarily criticized on the grounds that they impose excessive collateral and security requirements on small business applicants. To the extent that this is true, it is thought to be most pronounced for firms at the seed and start-up phases where the firm has an unproven debt servicing capacity, and for firms

with a high proportion of what bankers would regard as "soft", i.e., non-marketable or illiquid, assets. The availability and terms on which debt financing is available to small business depends on the personal attributes of the principals and secondly, on the characteristics of the company itself in terms of industry sector, size, age, and the financial condition, especially its debt to equity ratio. It is difficult to know the empirical importance of the "gap" in the existing debt capital market, but the perception exists that it is significant for an important segment of businesses - small firms, new firms and firms producing products which are relatively new to the marketplace.

TASK FORCE FINDINGS

1. SMALL FIRMS IN B.C. DISPLAY A PATTERN OF TRUNCATED GROWTH AND PREMATURE FAILURE

British Columbia has a disproportionately large share of very small firms, i.e., firms earning less than $250,000 per year in gross operating revenue. For example, 63% of the small and medium sized firms in B.C. earn less than $250,000 annually in comparison to 57% for Canada as a whole.

For all size categories above $250,000 per year, B.C. is underrepresented in comparison to Canada as a whole. Combined with data on business start-ups which show that the role of firm creation in B.C. is similar to the Canadian average, it may be concluded that there is no shortage of B.C. entrepreneurs willing to enter into business, but a disproportionate number experience extreme difficulty moving past the start-up and very small scale production stage, and often fail prematurely.

This pattern of truncated growth and premature failure is true of all economic development regions in the Province, but is especially noticeable for the Vancouver Island/Coast, Thompson/Okanagan and Kootenay Development Regions. As a result, these three economic development regions each have a lower share of small and medium sized businesses than would be warranted in terms of their percentage share of population. The Lower Mainland/Southwest Region is the closest to the Canadian average in

terms of the size distribution of firms, and has a higher share of the Province's small and medium sized enterprises than would be suggested by the region's share of provincial population.

2. B.C. HAS A LOW SHARE OF SMALL MANUFACTURING COMPANIES

In terms of the sectoral distribution of British Columbia's small and medium sized firms in comparison to Canada as a whole, B.C. is significantly underrepresented in terms of firms in the manufacturing and processing sector - 7.2% of B.C.'s small and medium sized enterprises versus 9.2% for Canada as a whole. Other sectors have a proportional representation in B.C. which is basically similar to Canada, with the exception of construction, transportation and (obviously) forestry where there are proportionately more small and medium sized enterprises in B.C. then for Canada as a whole.

Within B.C., the distribution of small and medium sized enterprises displays the classic pattern of a commodity based hinterland dominated by a large metropolitan centre. Small and medium sized businesses in the manufacturing, wholesale, trade, real estate and business services categories are relatively concentrated in the Lower Mainland/Southwest Region, while firms in forestry, construction, transportation, and accommodation/food are relatively overrepresented in all economic development regions outside of the Lower Mainland/Southwest.

3. B.C. FIRMS HAVE THE HIGHEST DEBT-TO-EQUITY RATIOS IN CANADA

Debt-to-equity (D/E) ratios show the proportion of the company's total tangible assets that is financed through debt and other liabilities. The ratio is important because it provides an indication of the firm's vulnerability to fluctuations in net operating profits. Because of the requirement that debt must be serviced according to the repayment schedule agreed to between the company and the lending institution or individual, high D/E ratios serve as an important indicator of the firm's ability to function in a competitive marketplace.

The most striking observation concerning small and medium sized businesses in B.C. is their very narrow equity base, and correspondingly high debt load when compared to equivalent firms in other parts of the country. Appendix B to this report shows that the D/E ratio for B.C. firms is 48% higher than the Canadian average. Also, the D/E ratio for B.C.s small and medium sized firms is higher than in any other region of the country. For example, it is:

- 22% higher than the Atlantic Provinces;
- 103% higher than Quebec;
- 40% higher than Ontario;
- 44% higher than the Prairie Provinces.

4. B.C. FIRMS IN THE ACCOMMODATION AND FOOD SECTOR HAVE PARTICULARLY HIGH D/E RATIOS.

Small and medium sized enterprises in B.C. have D/E ratios which exceed the Canadian average in all sectors except one (retail trade). The difference in D/E ratios between B.C. and Canada is especially noticeable in the accommodation and food sector where B.C. firms have D/E ratios 125% above the Canadian average. These sectors have D/E ratios which exceed the Canadian average by the following amounts:

♦ Forestry	88%
♦ Manufacturing	51%
♦ Construction	80%
♦ Transportation	38%
♦ Wholesale Trade	22%
♦ Retail Trade	-16%
♦ Real Estate	16%
♦ Business Services	31%
♦ Accommodation/Food	125%
♦ Other Services	83%

5. ALL ECONOMIC DEVELOPMENT REGIONS EXCEPT NECHAKO HAVE D/E RATIOS WHICH EXCEED THE CANADIAN AVERAGE

Average D/E ratios for the eight economic development regions of the Province exceed the Canadian average by the following amounts:

♦ Vancouver Island/Coast	67%
♦ Lower Mainland/Southwest	44%
♦ Thompson/Okanagan	83%
♦ Kootenay	72%
♦ Cariboo	58%
♦ Northcoast	33%
♦ Nechako	-11%
♦ Northeast	34%

6. EQUITY CAPITAL AT THE START-UP STAGE IS ESPECIALLY HARD TO OBTAIN OUTSIDE OF THE LOWER MAINLAND/SOUTHWEST REGION

Debt-to-equity ratios for very small B.C. firms, i.e., those with gross annual sales in the $10,000 to $50,000 range, are below the Canadian average for the Lower Mainland/Southwest region, but significantly higher for all other regions. The amount by which the D/E ratios for small start-up firms exceed the Canadian average for the same sized firms are as follows:

♦ Vancouver Island/Coast	97%
♦ Lower Mainland/Southwest	-78%
♦ Thompson/Okanagan	94%
♦ Kootenay	114%
♦ Cariboo	308%
♦ Northcoast	227%
♦ Nechako	350%
♦ Northeast	236%

7. THE EQUITY BASE FOR B.C. FIRMS IMPROVES AS FIRM SIZE INCREASES

Debt-to-equity ratios for B.C. small and medium sized firms relative to the Canadian average for firms of equivalent size improves as firm size increases, but always exceeds the Canadian average. The only exception to this pattern of improved D/E ratios is for very small start-up firms, i.e., those with sales between $10,000 and $50,000 annually. As noted in point 6, firms in this size category in the Lower Mainland/Southwest category have low D/E ratios and tend to dominate the B.C. average. D/E ratios for B.C. firms exceed the Canadian average by the following amounts:

$10/$50 K	-23%
$50/$100 K	73%
$100/$250 K	91%
$250/$500 K	62%
$500 K/1 M	55%
$1/$2 M	55%
$2/$20 M	50%

8. THE REVENUE BASE AVAILABLE TO B.C. FIRMS EQUALS THE CANADIAN AVERAGE

The ratio of sales revenue to assets for B.C. firms is very close to the Canadian average - in fact the two figures for sales per dollar of assets differ by only 4%.

9. THE LEVEL OF PROFITS ON SALES IS VERY LOW FOR B.C. FIRMS

Despite the very acceptable revenue base available to small and medium sized firms in B.C., the level of profits generated by these sales is extremely low. The average level of profits-to-sales obtained by B.C. firms is 30% below the Canadian average, and 45% below the levels obtained in Ontario and Quebec. The profits-to-sales performance of B.C.s small and medium

enterprises is poor for all size categories, but is especially bad for very small firms, i.e., those with gross revenues in the $10,000 to $50,000 range.

10. THE SOURCING OF FUNDS BY SMALL FIRMS IN B.C. CONTINUES TO SHOW HEAVY RELIANCE ON DEBT FINANCING

Information on how small companies - defined as those with $2 million or less in annual gross revenue - finance their operations show that the situation in B.C. is unique in Canada.

First, small firms in this Province have very low levels of retained earnings in comparison to Canada as a whole, and all regions of the country. Small firms in B.C. obtain only 29% of their funding from retained earning in comparison to 33% for Canada as a whole, and 36% in the Atlantic Provinces, 40% in Quebec, 32% in Ontario and 34% in the Prairie Provinces.

The low reliance on internally generated funds has created a situation where small firms in B.C. rely heavily on funds borrowed externally from financial institutions and advances and loans from shareholders. Together, these two sources of debt financing make up 47% of the funds sourced by small businesses in B.C. and only 39% for Canada as a whole, and explain the high D/E ratios reported earlier. In fact, B.C.'s reliance on funds borrowed from financial institutions and shareholders was the highest of all other Canadian regions - 41% for the Atlantic Provinces, 39% for Quebec, 38% for Ontario and 39% for the Prairie Provinces.

Finally, only a miniscule portion of funds sourced in B.C. came from injections of new equity. For Canada as a whole, 4.5% of the total funds sourced by small enterprises comes in the form of additional equity, while the equivalent figure for B.C. is only 0.6%, approximately equal to the percentage level of additional equity sourced by firms in the Atlantic Provinces, and well below all other regions of Canada.

11. DEBT SERVICING AND REPAYMENT OBLIGATIONS TIE UP A LARGE PROPORTION OF THE FUNDS APPLIED BY SMALL FIRMS IN B.C.

Because such a large proportion of funds sourced by B.C. firms comes from loans obtained from financial institutions and shareholders, debt servicing and repayment obligations tie up a very large proportion of the funds applied by B.C.'s small firms. Debt servicing and repayment charges use up over 53% of the funds available to B.C. firms, but only 39% for Canada as a whole. This level of debt servicing and repayment is significantly higher than all other regions of the country - 46% in the Atlantic Provinces, 39% for Quebec 33% in Ontario and 42% in the Prairie Provinces.

12. DIVIDEND PAYMENTS AND INVESTMENT IN NEW MACHINERY AND EQUIPMENT IS LOW IN B.C.

As a result of the very significant debt servicing and repayment obligations imposed on small firms in B.C. because of their high levels of debt financing and low levels of retained earnings, firms have below average levels of divided payments and investment in new machinery and equipment. The low level of new investment in machinery and equipment by small firms in B.C. is especially important in that the share of funds used by small firms in B.C. to purchase new machinery and equipment is only one-half that occurring in the rest of Canada, and is approximately equal to that occurring in the Atlantic Provinces.

OBSERVATIONS ON ESTABLISHED MINISTRY FINANCIAL PROGRAMS

1. EQUITY MARKET PROGRAMS

To help increase the availability of equity capital for small and medium sized firms, the Province has created the Small Business Venture Capital Program (VCC), and more recently, the Employee Investment Program.

The Small Business Venture Capital Program is governed by the Small Business Venture Capital Act which allows for the formation of investment companies called Venture Capital Corporations. Each VCC must raise $25,000 of equity capital prior to registration and the Province provides each investor with a tax credit incentive of 30% of the cash investment to a maximum of $60,000 annually. The VCC must in turn invest these funds within a certain time period in eligible small businesses in British Columbia.

Data produced for the Task Force showed that projects under the Venture Capital Program are mainly in the manufacturing, aquaculture, tourism, and R & D sectors. Also, projects are heavily concentrated in the Lower Mainland/Southwest, Vancouver Island/Coast, and Thompson/Okanagan Development Regions. However, usage in the Lower Mainland/Southwest Development Region is below the region's population share while usage in Vancouver Island/Coast and Thompson/Okanagan exceeds population share. This suggests that the program is most attractive to investors who reside outside of the reasonably well-developed venture capital markets of Vancouver.

An independent review of the Small Business Venture Capital Program reports that the program has been successful in stimulating more than $35 million of equity investment for eligible small businesses. Also, the report found that 97% of the investors indicated they would not have made the investment in the absence of the program.

The Employee Investment Program is an incentive program to encourage employees to invest equity capital in British Columbia firms. As such it has

two components - the investment can be made directly in the employer's company through Employee Share Ownership Plans (ESOPs), or indirectly in a number of eligible British Columbia businesses through Employee Venture Capital Corporation (EVCCs).

The ESOP component allows employees and companies to co-operatively set up an Employee Share Ownership Plan under which all full-time employees will be eligible to acquire equity shares. The Province will provide an incentive by way of a tax credit to employees to encourage their investment.

The EVVC component will encourage the formation of employee controlled pools of capital for investment in small to medium sized British Columbia businesses. As with ESOPs the Province will issue investors a tax credit certificate.

The program has only very recently been initiated and no hard data on results is yet available.

2. DEBT MARKET PROGRAMS

In the debt capital market, the Ministry administers three established financial incentive programs which have been developed jointly with the federal government under the Economic and Regional Development Agreement (ERDA), and one program which is solely a provincial initiative.

The three sub-agreements under ERDA cover industrial development, small business, and tourism development, while the Province alone funds and administers the Regional Seed Capital program. The ERDA agreement was entered into in 1984 and expires in 1994 but the individual initiatives expire in 1990. Areas for the very limited funds are being discussed, although the level of federal commitment to future participation is uncertain.

The Industrial Development Sub-Agreement (IDA) made available $125 million in funds targeted to larger scale resource and industrial sector projects. The major themes are further processing/value-added and diversification of the industrial base. The program components consist of the

Resource Industries Modernization (administered by the Federal Department of Western Economic Diversification), the Resource Industries Value-Added, (administered by the Ministry of Regional and Economic Development), and the Industrial Diversification Program, (administered jointly).

The Small Business Incentives Sub-Agreement (SBISA) is a $50 million agreement also expiring in 1990. Through the SBISA Sub-Agreement, the Small Business Incentive Program (SBIP) is delivered by the Ministry of Regional and Economic Development, and provides interest free or low interest repayable loans up to $500,000. The projects must involve manufacturing, processing, advanced technology manufacturing, aquaculture, or in some cases, service sector activities vital to manufacturing and processing.

The Tourism Development Sub-Agreement ($30 million) also expires in 1990. The focus of the Sub-Agreement is on the Product Development Program ($20 million), administered by the Ministry of Regional and Economic Development. This program focuses on development of destination resorts, and major attractions with the intent of broadening British Columbia's appeal to the international tourist community. The project size is $150,000 to $ 1 million, depending on project type. Other smaller programs under the Tourist Development Sub Agreement are aimed at encouraging and supporting the international marketing of British Columbia's tourism products and destinations, and upgrading the information and skill base of tourist industry operators.

The Regional Seed Capital Program is strictly a Provincial initiative and is unique in that it will guarantee term loans for working capital. The program is designed to encourage financial institutions to lend money to viable small businesses. There is no stated minimum level of guarantee, and the maximum is $50,000 or 75% of the value of the loan, whichever is lower.

The Task Force noted several points with respect to the distribution of program funds across the various economic development regions of the Province.

Because projects under the Industrial Development Agreement focus on relatively large projects in the manufacturing and resource processing sectors, development regions outside of Vancouver Island/Coast and Lower Mainland/Southwest receive a more than proportional share of program funds.

Projects under the Small Business Incentives Program are concentrated on the manufacturing and aquaculture sectors. Therefore, the Vancouver Island/Coast and Lower Mainland/Southwest development regions receive funds in excess of their share of population.

Projects under the Product Development component of the Tourism Development Sub-Agreement are distributed across the development regions in approximate proportion to population levels.

Uptake for the Regional Seed Capital Program has been slow, even after discounting for the relative newness of the program. Projects are generally concentrated on the manufacturing sector, but also show a reasonably wide distribution outside of manufacturing, e.g., business services and accommodation, food and beverage sectors. Unlike projects under the Small Business Incentives Program, Regional Seed Capital projects are roughly distributed in proportion to population except for the Lower Mainland/Southwest region which is proportionately underrepresented. Constraints to the success of the program which the Task Force identified are:

1. Some financial institutions are reluctant to participate because of their relatively high fixed administrative cost on small sized loans.
2. The upper ceiling of $50,000 is seen to be too low for many otherwise viable and eligible projects.
3. The time consuming nature of the application and review process.
4. The name of the program does not adequately reflect its true nature.

OBSERVATIONS ON FINANCIAL ASSISTANCE OUTSIDE OF THE ESTABLISHED PROGRAMS

Debt and equity assistance has been selectively provided by the Province under the Industrial Development Incentive Act (loans and investments), and the Financial Administration Act (loan guarantees). Technical review for projects under these two pieces of legislation is provided by Ministry of Regional and Economic Development officials and by Treasury Board. Decisions are made by Cabinet. These two pieces of legislation provide the Province with the major tools required to participate in the industrial recruitment model of economic development.

A productive way to view the entire structure of provincial financial incentive programs is in terms of their degree of delegated authority. Thus, Cabinet reserves the right to make some large loans, investments, or loan guarantees itself. For other, usually smaller projects, authority for decision-making is delegated solely to a provincial Ministry, or shared between a provincial Ministry and a federal department or agency. Decision-making rests with the Ministry to whom authority has been delegated, but is constrained by the specified program criteria, i.e., target sectors, the type and level of support and other eligibility conditions, approved by Treasury Board. Regionalization may be thought of as representing further delegation of decision-making, and the associated program constraints, to regionally-based organizations.

TASK FORCE RECOMMENDATIONS REGARDING ACCESS TO CAPITAL FOR SMALL BUSINESS

In making the following six recommendations aimed at enhancing the availability of capital for small and medium sized enterprises in British Columbia, the Task Force examined and agreed with the Province's established principles for financial support to business. The principles used to determine whether or not a project should receive financial assistance from the Province are as follows:

- Projects should be commercially viable, and therefore able to operate without ongoing Provincial financial assistance.

- Projects should have demonstrable net benefits to British Columbia in terms of income growth, employment, regional stability, diversification of the economy etc., but due to insufficient financing from the private sector would not otherwise proceed.

- Assistance should be provided only if it is necessary for the project to proceed and then only at the minimum level deemed to be required.

- Projects should not adversely affect existing industry in British Columbia.

- All loans must be secured in accordance with normal commercial lending practices.

Also, the recommendations give broad policy direction for the Province's financial incentive programs in the 1990's. The Task Force recommends Ministry officials complete the program design process by developing specific program parameters and details within the broad outline of these six recommendations, and the Provincial guidelines on financial assistance.

In its deliberations, the Task Force adopted a "business-is-business" attitude with respect to the various sectors which collectively make up the Provincial economy. Thus, no special attention was given to the individual sectors in the economy, eg. tourism or companies in the "high tech" field, and recommendations are of a generic nature. Adapting these recommendations to any special needs of individual sectors is a dimension of the policy design process which must be left to Ministry officials.

Finally, the Task Force realizes that implementation of these recommendations must take place within the overall policy and budget environment facing the Province. Throughout its deliberations, the Task Force has constantly kept the issue of program cost in mind.

1. INTRODUCTION OF A NEW LOAN GUARANTEE PROGRAM FOR START-UP FIRMS

The Task Force recommends the creation of a 100% loan guarantee program, to be administered by the major lenders (banks, credit unions, etc.), to provide a provincial loan guarantee at a minimum of $15,000 on the condition that the entrepreneur provide a matching amount of equity capital. This program should be available only once to firms at their start-up stage. The need for this type of start-up program is especially noticeable in development regions outside of the Lower Mainland/Southwest. Thus, regional sensitivity in terms of the amount of the loan guarantee and/or the value of the required matching equity may be required.

2. REPLACE THE REGIONAL SEED CAPITAL PROGRAM WITH A SELECTIVE LOAN GUARANTEE PROGRAM FOR WORKING CAPITAL

The Task Force recommends the creation of a sectorally-targeted loan guarantee program for working capital available very selectively to established firms experiencing problems obtaining second stage financing from commercial lenders. The Task Force noted that this recommendation may be implemented by refocusing and raising the loan limits on the existing Regional Seed Capital Program.

3. ENHANCED PROMOTION OF THE MINISTRY'S EXISTING EQUITY MARKET PROGRAMS

Task Force members noted that the financing problems and vulnerability of small and medium sized enterprises in B.C. will continue until firms establish a better underpinning of equity capital. Thus, the Task Force recommends that the Ministry retain its two equity market programs but make access to them more "user friendly" through enhanced promotional efforts, increased assistance with the regulatory complexities, and a broadening of the target areas. However, this in only an interim measure. For the longer term, the Province must consider a wider range of possible mechanisms to enhance the

availability of equity risk capital. The Task Force recommends the Province study this matter further.

4. CREATE COMMUNITY BASED VENTURE CAPITAL CORPORATIONS USING A PHASED APPROACH

Task Force members contend that the scope of the existing Small Business Venture Capital Program can be expanded considerably by allowing community based investment corporations to operate in the same fashion as privately held venture capital corporations currently do. The exact composition of the community based investment corporation's board of directors, the terms of their articles and memorandum, their initial financial requirements and the required legislative changes all require further analysis. However, Task Force members believe strongly that the existence of a community- based vehicle to provide equity funding will significantly enhance the performance and stability of local small and medium sized enterprises.

5. MAINTAIN THE SMALL BUSINESS INCENTIVES PROGRAM

The Task Force noted that this initiative constitutes the Province's core debt market program for small and medium sized manufacturers in British Columbia. The program addresses the need for manufacturing and processing industries to diversify and enhance existing product lines, hence providing further export opportunities and stability of regional economies.

The importance of a competitive, modern manufacturing and processing base cannot be overstated and the Task Force recommends that this program be continued into the 1990's, even at full cost to the Province if necessary, versus the present 50/50 cost-sharing formula with the federal government. It should especially be promoted in areas of the Province where take-up rates have been relatively low.

6. DETERMINE THE FEASIBILITY OF FACILITATING THE FLOW OF EQUITY CAPITAL THROUGH PUBLIC STOCK EXCHANGES

The Task Force noted that access to equity capital raised on the public stock market is extremely difficult for medium sized firms to obtain due to a host of regulatory and transaction cost considerations. However, recent financial innovations such as the creation of junior capital pools, and stock based savings plans have been used in other jurisdictions to facilitate the flow of publicly raised equity capital to medium sized businesses. By necessity, the supervision of these types of equity enhancing arrangements can be administratively quite complex given the legal requirements involved.

Given the complexity of the issue and lack of information available to the Task Force on the topic of junior capital pools and tax based stock savings plans, the Task Force makes no recommendations regarding the role they might play in British Columbia. However, the Task Force does recommend that further research be done to advise the Province on the costs and benefits of these types of initiatives.

CHAPTER 3

ACCESS TO BUSINESS INFORMATION AND MANAGEMENT ADVISORY SERVICES

BACKGROUND

In very few cases, do the owner-operators of small and medium sized businesses have all the experience and business skills necessary to successfully plan, start up and operate their small business and guide them through the inevitable crises which threaten its continued existence. The list of required business skills is daunting - production, marketing, finance, personnel administration, accounting and organization - so it is not surprising to learn that poor management decisions are one of the most important causes of small business failures in Canada.

Access to information relevant to small business may be grouped under the general heading of business advisory services, but really consists of three separate types of activity:

- Business information, which basically consists of access to information and data of a non-firm specific nature, e.g., identifying local and export market opportunities, information on new production technologies, and data on the availability of specialized business services.

- Management advisory services, which consist of face-to-face, firm specific advice on such issues as business planning, accounting and record keeping, loan proposal assistance, financial restructuring, and especially marketing.

- Business training programs, which consist of a wide range of seminars, courses and workshops aimed at enhancing the general level of business skills.

Comprehensive background material on the subject of business information and advisory services was provided to the Task Force in the form of the independent review of business development programs in Province done in 1988, and briefly described in Chapter 1. The report focused on a description of current services available in each community, the client's perceptions and needs, and identification of service overlaps and gaps at the community, regional, and provincial levels. The Task Force findings on this topic closely paralleled the observations made in the independent review.

TASK FORCE FINDINGS

1. MANY AGENCIES PROVIDE BUSINESS ADVISORY SERVICES IN THE PROVINCE

Nine different agencies or programs provide some type of business advisory services in the Province.

- The Federal Business Development Bank (FBDB) provides a number of business advisory programs on a cost recovery basis. Examples include the Counselling Assistance to Small Enterprise (CASE) program in which retired business people provide one-on-one counselling to small businesses; management video clinics; business management courses and seminars; and the Financial Planning Program which develops do-it-yourself kits on a variety of business topics.

- The Community Futures Program, administered by Employment and Immigration Canada, allows interested parties in communities to establish a locally-constituted Community Futures Advisory Committee which in turn establishes a Business Development Centre (BDC). BDC's can act as lenders of last resort, providing start-up capital for small businesses, and also provide one-on-one counselling to entrepreneurs. Only those communities with an unemployment rate which exceeds the provincial average are eligible for the

Community Futures Program. Most areas outside of metropolitan Vancouver and Victoria are now covered or proposed.

- Business Information Centers (BIC's) are operated by local Chambers of Commerce at their offices throughout the Province. The role of BIC's is generally restricted to providing basic referral services and information handouts on government programs and services, and they provide access to the B.C. Business Network. However, some BIC managers do provide basic one-on-one counselling, and the Ministry is now using these centers as retailers for the sale of some publications.

- Enterprise Development Centers (EDC's) are operated by 16 universities and community colleges throughout B.C. EDC's provide one-on-one counselling services, mainly focussing on new business planning, and also offer courses, seminars, and workshops on business topics, usually on a cost recovery basis.

- Community Organizations for Economic Development (COED) Program provides funding to local communities for an Economic Development Committee or an Economic Development Officer (EDO). The promotion of major investment and business opportunities is the main concern of an EDO, advice to local business being a secondary function. The COED program also supports cost shared research studies and investment promotion activities that are identified at the community or regional level.

- Government Agents are the general public's link to provincial government ministries not otherwise represented in the community. Recently they have been trained to providing basic business referral and information services and access to the B.C. Business Network, but only in communities where there is no economic development officer or Business Information Center.

- The Provincial Government's B.C. Info Business Centre, commonly known as the B.C. Enterprise Centre, is located in Vancouver. Staff provide business information, a Small Business Resource Centre

library, the International Opportunities Network and provincial databases. The Enterprise Center is the headquarters of the B.C. Business Network.

Nine "B.C. Enterprise Centers in a Box" are located across the Province to provide business reference materials in a resource library format.

- The Province operates a number of information/advisory seminars in communities throughout the Province. A key program for those in the start-up or pre start-up stage is the Home-Based Business Program.

  This initiative recognizes the incubator role played by home-based businesses, and provides awareness seminars and business skills workshops throughout the Province. Its primary objective is to reduce the failure rate of home-based business, and help the business to grow out of the home.

- Provincial libraries provide a host of business publications and are often the first source of information to those wishing to start a business.

2. ACCESS TO INFORMATION AND REFERRAL SERVICES IS GOOD ACROSS THE PROVINCE

Most communities in the Province have various agencies providing core business information and referral services. These services do overlap to some extent but this is seen to be an advantage as many small businesses are not always certain of the agency they should initially contact and each agency has a variety of information to offer. However, the Task Force noted that consistency in the quality of information available at the community level varied across the Province. A common concern expressed was the local need for more information on market opportunities both within and outside of the Province.

3. ACCESS TO MANAGEMENT ADVISORY SERVICES IS UNEVEN ACROSS THE PROVINCE

The Task force noted that some communities have several agencies providing management advisory and support services, while others have none at all. In communities where several agencies provide management advisory services, overlap and duplication remain a major concern in many cases.

4. ACCESS TO BUSINESS SKILLS TRAINING IS UNEVEN ACROSS THE PROVINCE

The Task Force noted that the availability of seminars, courses and workshops aimed at developing business skills is highly uneven across the Province. At present, there is no coordinating agency which ensures that each community receives the level and type of business skills training in accordance with its size and economic base.

OBSERVATIONS ON EXISTING MINISTRY BUSINESS ADVISORY PROGRAMS

From the list of nine agencies or programs providing a business advisory service, the Ministry of Regional and Economic Development is directly responsible, or provides financial support, to:

- the Business Information Centers;
- the Community Organizations for Economic Development;
- the Government Agents;
- provincial seminars and workshops such as the Home-Based Business Program.

In addition, the Task Force noted that the Ministry has recently initiated a pilot project in the Kootenays to broaden and rationalize the delivery of business advisory services in local communities.

The pilot project includes establishing business resource teams at the local level; developing a catalogue of business services and service suppliers in the community; support for locally initiated business events, seminars, workshops such as the "Business Opportunities at Your Doorstep" series; and arrangements for local one-on-one business counselling services. The common theme of the initiative is to speed up the process by which communities realize that economic development is everybody's business - and that Chambers of Commerce, community colleges, economic development agencies and local government all have a role to play in it.

The hope is that from the common understanding created by the process, better community organizations will evolve where each agency is positioned to do what it does best, and where all organizations function in an integrated and coordinated fashion. Ideally, this process would culminate in "one-stop-shopping" center for business, i.e., co-location of the various organizations.

TASK FORCE RECOMMENDATIONS REGARDING ACCESS TO BUSINESS INFORMATION AND ADVISORY SERVICES

Task Force members believe that three fundamental principles should guide program design and delivery in the area of business information and advisory services:

- First, service delivery should be decentralized as far as possible to community based organizations in direct contact with the local business community. Ultimately, this process of devolution will create a wholesale/retail structure for the delivery of business advisory services. Locally-based "retailers" will work directly with small business owners to assess their problems and recommend follow-up by private sector services or program assistance provided by Federal or Provincial "wholesalers" of economic assistance programs.

- Second, management advisory services are best provided by community based organizations which are also in a position to provide access to and advice on sources of financing, including government incentive programs. Tackling the obstacles that inhibit a firm's

development requires that simultaneous attention be paid to the financial and management dimensions of the problem.

- Finally, the exact composition of the community based economic development agency, and the services delivered by the various existing organizations, must be left to individual communities when and where they are ready.

  Experience in other jurisdictions has shown that different communities are able to organize at different rates and sometimes offer a different mix of services. However, the Task Force does not see this as a weakness because it is the community which must ultimately decide what services are required locally.

1. EXPAND THE BUSINESS DEVELOPMENT SERVICES PILOT PROJECT TO OTHER REGIONS OF THE PROVINCE

The Task Force believes that providing easier and more even access to relevant management advisory services and business skills training across the Province ultimately requires the building of a network of credible community-based economic development organizations that will function on a sustained basis. These are in a unique position of being able to accurately identify the business advisory needs which can be addressed by the local private sector or programs provided by the Provincial and Federal governments.

As the first step towards building a network of credible, community based economic development organizations, in communities where they do not already exist, the procedures used in the Kootenay pilot Project should be used to help communities produce a single "champion" agency, or combination of existing agencies, preferably in a common location, which will be the focal point for community development efforts, and to whom the Province will increasingly devolve service delivery authority over time.

In many communities, the process will involve dealing with service gaps and overlaps arising from the existing structure of local suppliers of business

services , while in others it will involve advice on the creation of an agency to assume the responsibility for all community based economic development activities.

2. USE CONDITIONAL FINANCIAL SUPPORT TO ENSURE COMMUNITY SUPPORT AND COOPERATION

In order to induce local cooperation in the process of identifying and building single community based economic development agencies, the Province should be willing to use two types of conditional financial support:

- Performance-related core funding provided to the various existing agencies providing some form of local business information and management advisory services.

- The promise to create and contribute to a community- based venture capital corporation if the various information services are provided in an integrated and coordinated manner of the community level.

3. CONTINUE SUPPORT OF MINISTRY INFORMATION AND ADVISORY SERVICES THAT ARE COMMUNITY DRIVEN

Programs that involve community supported initiatives (such as the Community Organizations for Economic Development Programs, the Home-Based Business Program, and the Business Information Centers Program) should be continued.

4. EXPAND THE SCOPE OF BUSINESS INFORMATION PROGRAMS TO PROVIDE BETTER MARKET OPPORTUNITY INFORMATION

The Task Force recommends that existing market information programs such as the B.C. Business Network and Venture-Net be continued subject to a formal evaluation of their effectiveness. However, the Task Force finds that the level of hard market information available to small and medium sized firms, and the level of marketing skills which currently exist in these firms, both require program attention from the Province. Without getting too

involved in program design, the Task Force suggests that the Province continue to enhance the level of domestic and international market information available to users.

Also, to help ensure that this information is productively used by specific firms in their marketing efforts, the Task Force recommends that the Province more fully use industry associations as an information dissemination vehicle. For very small firms who do not have an active industry association, the community based economic development agency should be used to deliver the market information in a useable form.

CHAPTER 4

CREATING AND MAINTAINING A FAVOURABLE CLIMATE FOR BUSINESS

BACKGROUND

Regardless of the strength of the business, chances for long term success are drastically limited if much of the owner operator's energy must be devoted to complying with the requirements of an unfavourable business climate. The terms of reference for the Task Force (Appendix A) provided the opportunity for Task Force members to identify specific issues as important disincentives to local business establishments. The following points arise from discussion of the Task force members, from discussions with other interest groups, and from written submissions to the Task Force.

TASK FORCE RECOMMENDATIONS ON BUSINESS CLIMATE ISSUES

1. REMOVE THE 6 PERCENT SOCIAL SERVICES TAX ON MACHINERY AND EQUIPMENT PURCHASED BY SMALL BUSINESS

The Task Force recommends that the Province's Social Services tax on machinery and equipment tax be removed for purchases by small business. This recommendation is based on two fundamental principles of taxation - fairness and competitiveness.

- With respect to fairness, the Task Force indicated that the sales tax on machinery and equipment is regressive in its impact, i.e., its financial effects weigh relatively more on the capital budgets of small firms.

- On the competitiveness issue, the Task Force noted that other jurisdictions which are potentially competitive with B.C. locations, e.g., Alberta and Washington State, do not have a machinery and

equipment tax, or allow firms to amortize payment over a 5 year period. Also, statistical information produced for the Task Force (Appendix B) shows that small firms in B.C. have relatively low levels of investment in machinery and equipment - only one-half of the Canadian average for similar firms. The Task Force is concerned that this low level of investment - if reported over several years - will ultimately have negative effects on the competitiveness of small firms in B.C. By removing the sales tax on machinery and equipment , the Province can improve the investment climate for small firms.

2. THE FEDERAL GOODS AND SERVICES TAX AS CURRENTLY PROPOSED SHOULD BE WITHDRAWN

Given the financial structure of small and medium sized firms in B.C., especially their high debt loads and low levels of retained earnings, the Task Force cannot accept any tax measure which will increase the cost of doing business in the Province, and imposes disproportionate compliance and collection costs on the small business sector. The Task Force recommends that the current proposal be amended in the following ways:

- The Goods and Services Tax (GST) rate should be lowered and the tax base broadened.

- Collection of the GST should be integrated with the Province's Social Services Tax under a tax sharing agreement. A single Federal plus Provincial sales tax should be collected with proceeds remitted to one level of government to reduce the costs of compliance and paperburden.

3. PROPERTY TAXES ON THE COMMERCIAL/INDUSTRIAL BASE MUST REMAIN COMPETITIVE WITH OTHER JURISDICTIONS

The Task Force noted that in the complicated area of property taxation, there is an ongoing need to ensure that the level of taxes, particularly for school and hospital purposes, paid by owners of commercial and industrial property in B.C. remain competitive with the levels of tax paid by owner of

properties in other jurisdictions This follows because important segments of the small business sector are increasingly becoming "footloose" in terms of their location decisions and it is especially critical to maintain equality with the neighboring jurisdictions of Alberta and Washington.

4. THE PROVINCE SHOULD BUILD ON EXISTING PROGRAMS OF PROCUREMENT AT ALL LEVELS

The Task Force applauds the recent efforts by the Province and provincial agencies like B.C. Hydro to provide improved awareness of government orders and purchasing policies for small and medium sized firms.

The Province's import replacement policies and market information brokerage systems are important tools to ensure the stability and diversification of small businesses. The Task Force does recommend, however, that the feasibility of a first buyer program be explored to encourage British Columbia companies in the development of new product lines or "leading edge" technologies.

The Task Force also noted that British Columbia firms do not receive their proportionate share of federal procurements and strongly recommends that the Province, in cooperation with the Department of Western Economic Diversification actively encourage the Federal Government and its Crown Corporations to provide better and more timely information to B.C. based small and medium sized enterprises on the sourcing needs of Federal organizations.

5. THE PROVINCIAL GOVERNMENT SHOULD CONTINUE AND ENHANCE ITS EFFORTS TO PROVIDE INFORMATION ON MARKET OPPORTUNITIES CREATED BY THE FREE TRADE AGREEMENT

The Task Force noted that owner/operators of small and medium sized firms rarely have the time or expertise required to obtain the information needed to identify market opportunities created by the Canada/U.S. Free Trade Agreement (FTA). The Task Force supports the efforts of the Ministry of

International Business and Immigration to provide factual information on opportunities created by the FTA , and recommends that these information brokerage activities be continued and enhanced as the Agreement evolves. The Task Force believes efforts should be focused on:

1. Providing current information on the Agreement itself and its impact on the business environment (building on Provincial seminars conducted to date).
2. Identifying emerging opportunities under the FTA and distributing this information province-wide (through the B.C. Business Network, community -based agencies or industry associations).

6. THE PROVINCE SHOULD ENCOURAGE CLOSER COOPERATION BETWEEN THE SMALL BUSINESS COMMUNITY AND THE EDUCATION SYSTEM

The Task Force supports the recommendations of The Report of the Royal Commission on Education (Sullivan Report) that the school curriculum be reviewed and revised more frequently in the future than has been the case in the past. As part of this curriculum development, revision and implementation process, the Task Force recommends that accurate information on entrepreneurship and business financing issues be presented to students in both formal and informal settings.

7. THE PROVINCE SHOULD USE ITS BEST EFFORTS TO REDUCE THE LEVEL OF PAPERBURDEN ON SMALL BUSINESS

The Task Force recognizes that the level of paperburden created by all levels of government creates disproportionately high compliance costs on small firms because in most cases they do not have the management time to comply fully, nor can they justify the hiring of extra personnel. However, the Task Force believes that much of the problem arises due to the requirements of the Federal Government, e.g., statistical surveys (Statistics Canada); tax

related requirements, and employment forms such as Unemployment Insurance and the Canada Pension Plan.

The Task Force recommends that the Minister of Regional and Economic Development constantly monitor the level of provincially generated paperburden, and use best efforts to ensure that the Federal Government's reporting requirements are kept to the necessary minimum.

APPENDIX A

TERMS OF REFERENCE

REPORT OF THE TASK FORCE ON

SMALL BUSINESS PROGRAMS AND SERVICES

TASK FORCE ON SMALL BUSINESS PROGRAMS AND SERVICES

TERMS OF REFERENCE

INTRODUCTION

It is widely accepted that the greatest opportunities for regional economic diversification and job creation will come from the small business sector - the start up and expansion of local firms, building on entrepreneurial talents and competing in world markets.

TASK FORCE PURPOSE

In order to maximize the effectiveness of provincial programs and services to small business, and to help prepare for the challenges ahead, the province seeks input from a select group of interested parties to explore innovative ways by which it can take complementary action to support private sector initiatives.

BACKGROUND

The Ministry of Regional and Economic Development currently administers a wide variety of financial incentive and business information/advisory programs focused on building a strong, dynamic and resilient economy within the province.

Financial incentives are delivered by various different mechanisms (grants, loans, guarantees, and equity investment programs), and for some of the financial incentive and business information/advisory programs, the province shares interest and responsibility with the federal government.

Major recent provincial and federal initiatives such as regionalization, and the adjustment aspects of the Canada/U.S. Free Trade Agreement, in combination with the forthcoming expiry of the current Economic and Regional Development Agreement (ERDA) have created a unique opportunity for Task Force members to look at the Ministry's financial incentive programs, business information/advisory services and the mechanisms by which these programs and services are delivered to the business community in the province.

TASK FORCE OUTPUTS

1. A review of the Ministry's small business financial incentive programs in terms of their scope, rationale and ultimate value to small business establishments in light of changing domestic and international economic circumstances.

2. A review of the Ministry's business information/ advisory services in terms of their scope, rationale and ultimate value to small business establishments.

3. A compilation of the wants and needs of small business in the way of financial incentive programs and business information/advisory services to help meet their needs in a rapidly changing domestic and international economic environment. Information will come from Task Force members and other interested parties whose observations will be solicited by the Advisor to the Task Force, and presented to Task Force members.

4. A review of how the Ministry's financial incentive programs and information/advisory services fit with the regionalization, and possible free trade adjustment initiatives in terms of gaps, overlaps and duplication.

5. A review of mechanisms by which the financial incentive and business information/advisory services are delivered to ultimate users. Emphasis will be placed on identifying the most effective instruments of support, and how far programs and services may be realistically managed/delivered by local organizations in direct contact with small business.

6. A specific analysis of Regional Seed Capital Program in terms of its operations to date.

7. A review of economic development tools (e.g. government procurement, marketing assistance, etc.) which are delivered by other provincial ministries, or federal government departments and agencies.

8. A strategy for improving and restructuring the programs, services and delivery mechanisms involved in the process of regional economic development. Suggestions will be based on economic and fiscal realities, reflect the needs of small business which cannot be met by the private market, and the constraints on Ministry flexibility imposed by the shared nature of most economic development programs.

9. A final report summarizing the conclusions of the Task Force.

In order to help focus the work of the Task Force, the analysis of instruments to support indigenous economic growth, and suggestions for improvement, will be priorized in terms of whether they are:

- under the direct control of the Ministry of Regional and Economic Development;

- under the control of other provincial ministries; or

- under the control of federal government departments or agencies.

Primary attention will be placed on the financial incentive programs and business information/advisory services under the direct control of the Ministry of Regional and Economic Development, but other programs may be discussed if Task Force members wish to identify specific issues as important disincentives to local business establishments.

TASK FORCE MEMBERSHIP

Task Force members come from a wide variety of regional and sectoral interests.

Co-Chairmen:

Honourable Ivan Messmer, Minister of Parks
Dan Peterson, M.L.A. - Langley

Members:

Richard Allen	Chief Economist, B. C. Central Credit Union
Randy Black	Head of the Thompson-Nicola Manufacturers' Association
Oksana Exell	Coordinator for International Competitiveness, Ministry of International Business and Immigration.
Dawn Henderson	President, Kanada Bias Inc.
Rick Jensen	Mayor of the City of Cranbrook
Hugh Kay	Past President, Electronic Manufacturers Association of B. C.
Doug Kerley	Vice President of the Federal Business Development Bank for B.C./Yukon
Henry Litzenberger	Formally head of the Peace-Liard Development Association
Neil MacDonald	President, Sylvan Industries Ltd.
Chris Nelson	Assistant Deputy Minister, Business Development Division, Ministry of Regional and Economic Development
Kathleen Sanderson	Canadian Federation of Independent Business, B. C. and Yukon
Colin Smith	Past President of the B. C. Chamber of Commerce

APPENDIX B

FINANCIAL PROFILE OF SMALL AND MEDIUM-SIZED COMPANIES IN ECONOMIC DEVELOPMENT REGIONS OF BRITISH COLUMBIA

REPORT OF THE TASK FORCE ON

SMALL BUSINESS PROGRAMS AND SERVICES

INTRODUCTION

This project is a data base development project, designed to portray certain aspects of the financial profile of small and medium B.C. companies in various sectors, with the comparative position of firms in the eight Economic Development Regions tabulated and presented for the first time.

The sources of data for this project are Revenue Canada taxation files, as processed by Statistics Canada. Record linkage and primary tabulations were done by Statistics Canada's Small Business and Special Surveys Division.

It is important to emphasize that no individual business tax returns or financial statements were made available to the Ministry of Regional and Economic Development or its consultants. Statistics Canada vets all tabulations to assure that confidentiality of individual companies' data is protected, before releasing such statistical tabulations to the outside analyst.

INDUSTRY SECTORS, REGIONS AND FIRM SIZE

Each of the Canada-wide small business financing studies, starting with 1983, have dealt with small incorporated firms. While unincorporated small businesses are numerous, they account for only a small proportion of small business assets (Statistics Canada once estimated their share at 13%) and therefore, one could assume, their activity represents just a minor portion of small business financing. Therefore, in building the data base, it was decided to continue to concentrate on only one type of entity, the incorporated firm, and only one type of tax record (the T2 Return), given that these firms would provide most of the picture of small business financing in Canada.

The data in this study cover most, but not all, of the sectors of the economy. Specifically, the companies in this study cover the following sectors:

Forestry and Logging
Manufacturing
Construction
Transportation & Storage
Wholesale Trade
Retail Trade
Commercial Properties Operators & Insurance Agents
Business Services
Accommodation, Food & Beverage
Other Services

Where sample size permits, statistics are presented by region, using a corporation's head office address to determine its region of location. We follow the eight development regions used by the Ministry of Regional and Economic Development.

The objective of this project is to generate data on small and medium-sized enterprises (SME's). In order to be included in these statistical tabulations, companies must have had sales in 1986 amounting to at least $10,000, but not more than $20 million. In addition to the extensive tabulations on the geographic, industrial and financial profile of companies covering this full sales size range, supplementary information was accessible on sources and applications of funds for small companies only with sales of $10,000 to $2 million.

PROFILE OF COMPANIES IN ECONOMIC DEVELOPMENT REGIONS AND B.C. OVERALL - COMPARED TO CANADA BENCHMARKS

A. B.C. Overall

Within the size range of $10,000 to $20 million in sales, the size and industry distribution of B.C. companies active in 1986 was generally similar to the overall Canada pattern. Two areas in which B.C. firms were somewhat under-represented were:

- the $2-20 million sales size group: 8.3% of SME's across Canada, only 5.6% in B.C.
- the manufacturing and processing sector: 9.2% of SME's across Canada, only 7.2% in B.C.

From a financial profile standpoint, there are some significant differences between small/medium companies in B.C. and the rest of Canada. Most striking is the debtload carried by B.C. firms, relative to their equity base:

- B.C. SME's in 1986 had an average debt:equity ratio of almost 4:1. This was far higher than in every other Region of Canada (national average was about 2.5:1). This is particularly significant, because debt:equity is not a ratio which varies widely from year-to-year for an entire province or Region, and therefore this difference is not likely to have been eradicated by a couple of years of economic recovery since the reference year for these data (1986).

- Sectors with severely high debt:equity included accommodation/food, construction and other services.

- The interest coverage ratio for B.C. companies was, not surprisingly, below the national average, indicating the relatively large share of B.C. SME's net revenues that is consumed by interest payments. However, the difference was not as dramatic as the above-noted debt:equity gap might suggest - interest coverage average 1.9 for B.C. companies vs. 2.4 for Canada.

  Indications are that relatively more of the debt of smaller companies in B.C. is loans and advances from shareholders, as opposed to lending institutions; therefore, it is conceivable that, to a larger extent in B.C. than elsewhere, only modest interest payments, or perhaps none at all, were made on this type of debt in 1986,.

- Sales per $ of assets appeared sound for B.C. SME's in 1986 - very close to the national average. However, profits on these sales were weak in B.C. - 2.8% vs. 4.0% for Canada overall.

- Therefore, return on equity in B.C. was below the Canada average - 17.2% vs. 19.1%, despite the fact B.C. SME's had such a narrow equity base. This gap may have been reduced since 1986, as a result of relatively strong B.C. economic growth recently.

- For the smallest companies (up to $2 m. sales), the pattern of financing in B.C. was unique amongst Regions of Canada. Here, the share of funds internally generated - from current operations - was the lowest in Canada, and the reliance on funds borrowed from both financial institutions and shareholders was the highest. This was true in 1986, and the two years prior to that. Only a miniscule portion of funds sourced in B.C. has come in the form of injections of new shareholder equity.

- Because such a large portion of B.C. funds sourced comes from loans, an above-average share of funds applied is used to repay outstanding debt, and therefore a below-average share is available for the purchase of fixed assets. Moreover, the share of funds applied in B.C. to payment of shareholder dividends was only half that occurring in the rest of Canada.

B. B.C. Economic Development Regions

1. VANCOUVER ISLAND/COAST

- Relatively close to overall B.C. industry pattern for SME's; slightly under-represented in wholesale trade and business services, offset by a higher proportion in retail trade and forestry/logging

- Very high debt:equity overall, even by B.C. standards; the gap is primarily in retail trade, commercial properties and business services

- Sales to assets was strong, and profit on sales close to B.C. overall

- As a result, interest coverage slightly exceeded B.C. average

- Return on equity was excellent, well above both B.C. and Canada average, although the equity base was very small

- Small companies generated very small shares of capital raised through internal operations; above-average reliance on loans from institutions. With regard to funds applied, an above-average share in this Region went into purchase of fixed assets.

2. MAINLAND/SOUTHWEST

- Low in forestry/logging and high in business services; other sectors close to B.C. industrydistribution of SME's (this Region alone has 58% of businesses in the province)

- The only one of B.C.'s Economic Development Regions which has a representation in the $2-20 million sales size group close to the Canada average (i.e. 7% of SME's in Region vs. 8% for Canada; rest of B.C. has only 4% in this medium size range)

- Debt:equity was slightly below B.C. average, but higher than all Regions east of the Rockies

- Sales to assets close to average for B.C. and Canada overall

- Profit on sales well below Canada average, but higher than all B.C. Regions except Nechako

- Interest coverage and return on equity close to average for B.C., but well below Canada overall

- Small companies generated reasonably good shares of funds sourced which were generated through operations, and the Region had less reliance on loans from institutions than all B.C. Regions except Northeast. But this Region had the lowest share of small business funds applied to purchase of fixed assets.

3. THOMPSON/OKANAGAN

- A few differences in industry distribution compared to B.C. overall: lower in wholesale trade, business services - higher in retail, accommodation/food

- Very high debt:equity - highest anywhere in B.C.

- Nevertheless, interest coverage was reasonably good. This reflected a good performance in generating sales per $ of assets, with a profit on each $ of sales which was close to B.C. average

The net effect, given the narrow equity base, was a return on equity above average both for B.C. and for Canada as a whole

- Similar pattern of small company sources of funds to that of B.C. overall, but huge proportion of funds applied went to repay outstanding debt; very small amounts to shareholders in dividends.

4. KOOTENAY

- Over-represented in retail, forestry/logging, accommodation/food; very thin in business services

- High debt:equity, even by B.C. standards, and lowest interest coverage among B.C. Regions

- Worst profit on sales and return on equity of all B.C. Regions; some major sectors showed losses

- Small companies had the greatest reliance on loans from institutions among B.C. Regions. Despite high debt repayment commitments, an above-average share of funds applied also went into purchase of fixed assets.

5. CARIBOO

- Over-represented in forestry/logging and transportation; very thin in manufacturing, business services, wholesale trade
- Debt:equity and interest coverage relatively close to B.C. average
- Sales to assets were strong, but profits on sales were low
- As a result, return on equity only equalled the B.C. norm
- Pattern of funds sourced by small companies was very similar to B.C. overall. Very large share of funds applied went to purchase of fixed assets; very little went to other investments or to shareholder dividends.

6. NORTH COAST

- Over-represented in forestry/logging and transportation; very thin in commercial properties, wholesale trade and business services
- Debt:equity was lower and interest coverage much higher than the B.C. average
- Sales to assets were well above average, but profits on sales were just slightly lower than average
- As a result, return on equity exceeded the B.C. norm for SME's
- Nevertheless, for new funds sourced by small companies in 1986, this Region had B.C.'s lowest share of internally generated funds, and was by far the most reliant on loans from institutions and shareholders. Despite this, a very large share of funds applied went to purchase fixed assets.

7. NECHAKO

- Heavy representation in forestry/logging and transportation; very thin in commercial properties, construction, business services and manufacturing

- The smallest population of SME's among B.C. Regions, but the most robust financially:

  - lowest debt:equity among B.C. Regions - even below Canada average
  - strong sales per $ of assets
  - highest profit on sales among B.C. Regions, and above Canada average
  - highest interest coverage among B.C. Regions, far above Canada average
  - highest return on equity among B.C. Regions, and above Canada average

- For new funds sourced in 1986, this Region had the largest share generated from operations. Also the largest share of funds applied to purchase of fixed assets.

8. NORTHEAST

- Over-represented very significantly in transportation sector; very thin in commercial properties and manufacturing

- Debt:equity and interest coverage were close to B.C. average

- Sales to assets were above average, but profits on sales were very low.

- As a result, return on equity fell far below the B.C. norm

- For new funds sourced by small business in 1986, this Region had a very low share generated from operations; sale of fixed assets and investments filled the gap. Loans from institutions were low, but shareholder advances filled this gap. The share of funds applied to purchase fixed assets was close to B.C. average; a huge proportion of funds was utilized for repayment of institutional term debt.

TABLE 1

POPULATIONS OF SMALL/MEDIUM FIRMS AND % DISTRIBUTIONS BY SECTOR AND SIZE -- CANADA vs. B.C. AND ITS ECONOMIC REGIONS

	Canada Total		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
SECTOR	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.
FORESTRY	4162	1%	2105	3%	487	5%	318	1%	325	4%	167	7%	436	13%	165	14%	158	18%	27	2%
MANUFACT.	40188	9%	4799	7%	605	6%	3252	8%	459	6%	136	5%	142	4%	55	5%	38	4%	41	3%
CONSTRUCT.	69054	16%	11397	17%	1922	19%	6400	17%	1442	19%	382	15%	526	16%	194	16%	114	13%	226	18%
TRANSPORT.	20363	5%	3838	6%	598	6%	1644	4%	515	7%	160	6%	361	11%	111	9%	126	14%	235	18%
WHOLESALE	50001	11%	6570	10%	683	7%	4553	12%	561	7%	161	7%	219	7%	66	5%	68	8%	113	9%
RETAIL	87096	20%	12270	18%	2136	21%	6516	17%	1579	21%	643	26%	586	18%	255	21%	157	18%	230	18%
REAL ESTATE	52446	12%	8625	13%	1183	12%	5562	14%	848	11%	292	12%	347	11%	98	8%	78	9%	89	7%
BUSIN. SERV	47124	11%	6801	10%	796	8%	5013	13%	490	7%	87	4%	151	5%	56	5%	20	2%	97	8%
ACCOM/FOOD	28124	6%	4505	7%	812	8%	2228	6%	686	9%	248	10%	215	7%	89	7%	60	7%	98	8%
OTHER SERV	39155	9%	5568	8%	810	8%	3289	8%	582	8%	200	8%	266	8%	115	10%	65	7%	134	10%
TOTAL	437713	100%	66478	100%	10032	100%	38775	100%	7487	100%	2476	100%	3249	100%	1204	100%	884	100%	1290	100%

NUMBER OF FIRMS AND PERCENTAGE DISTRIBUTIONS -- BY SALES SIZE GROUP, ALL INDUSTRIES COMBINED

SALES SIZE GROUPS ($ in 1986)	Canada Total		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.	No. of Firms	% Distrib.
$10-50K	78534	18%	13666	21%	2192	22%	7937	20%	1609	21%	510	21%	597	18%	214	18%	163	18%	230	18%
$50-100K	65291	15%	11179	17%	1784	18%	6359	16%	1317	18%	441	18%	513	16%	202	17%	121	14%	265	21%
$100-250K	105034	24%	16515	25%	2620	26%	9205	24%	2012	27%	654	26%	852	26%	320	27%	269	30%	313	24%
$250-500K	72171	16%	10296	15%	1538	15%	5977	15%	1115	15%	434	18%	521	16%	195	16%	131	15%	219	17%
$500K-1M	53717	12%	6940	10%	966	10%	4124	11%	745	10%	250	10%	371	11%	141	12%	98	11%	143	11%
$1 - 2M	34564	8%	4147	6%	522	5%	2627	7%	387	5%	109	4%	225	7%	82	7%	58	7%	58	4%
$2 - 20M	36844	8%	3735	6%	410	4%	2546	7%	302	4%	78	3%	170	5%	50	4%	44	5%	62	5%
TOTAL *	446155	100%	66478	100%	10032	100%	38775	100%	7487	100%	2476	100%	3249	100%	1204	100%	884	100%	1290	100%

* Canada Total includes two additional industries, in addition to the ten in Table above, containing just over 8000 SME's (2% of the total)

TABLE 2

POPULATIONS OF SMALL/MEDIUM FIRMS AND DEBT:EQUITY RATIOS -- CANADA vs. B.C. AND ITS ECONOMIC REGIONS

	Canada Total		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:
SECTOR	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity
FORESTRY	4162	1.309	2105	2.464	487	2.347	318	6.881	325	2.527	167	2.524	436	1.889	165	2.36	158	1.459	27	1.695
MANUFACT.	40188	1.858	4799	2.813	605	2.251	3252	2.753	459	4.059	136	2.865	142	8.072	55	14.256	38	1.435	41	3.898
CONSTRUCT	69054	3.522	11397	6.365	1922	6.008	6400	8.033	1442	5.023	382	6.097	526	3.431	194	3.793	114	2.671	226	3.213
TRANSPORT	20363	2.497	3838	3.456	598	3.096	1644	3.676	515	3.363	160	2.976	361	4.185	111	2.761	126	2.235	235	3.352
WHOLESALE	50001	2.334	6570	2.846	683	2.393	4553	3.238	561	3.217	161	2.649	219	3.809	66	3.775	68	2.61	113	2.193
RETAIL	87096	2.619	12270	2.266	2136	4.254	6516	4.341	1579	4.46	643	4.039	586	5.391	255	3.038	157	4.066	230	3.693
REAL ESTAT	52446	4.024	8625	3.478	1183	6.406	5562	3.187	848	5.637	292	7.462	347	5.963	98	4.557	78	6.603	89	2.502
BUSIN. SERV	47124	2.038	6801	2.675	796	3.768	5013	2.575	490	3.523	87	2.094	151	2.832	56	2.596	20	3.298	97	1.834
ACCOM/FOO	28124	5.152	4505	11.603	812	12.023	2228	12.013	686	19.647	248	8.133	215	24.616	89	5.993	60	6.227	98	(- ve)
OTHER SERV	39155	2.961	5568	5.419	810	5.114	3289	5.541	582	6.399	200	12.6	266	4.123	115	2.872	65	3.487	134	2.386
TOTAL	437713	2.598	66478	3.853	10032	4.348	38775	3.75	7487	4.762	2476	4.463	3249	4.117	1204	3.457	884	2.344	1290	3.488

NUMBER OF FIRMS AND DEBT:EQUITY RATIOS -- BY SALES SIZE GROUP, ALL INDUSTRIES COMBINED

SALES	Canada Total		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
SIZE GROUPS	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:	No. of	Debt:
($ in 1986)	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity	Firms	Equity
$10-50K	78534	2.01	13666	1.634	2192	3.953	7937	1.131	1609	3.9	510	4.295	597	8.194	214	6.579	163	9.047	230	6.757
$50-100K	65291	2.647	11179	4.59	1784	5.242	6359	4.02	1317	7.267	441	5.96	513	6.851	202	4.991	121	7.148	265	4.233
$100-250K	105034	2.716	16515	5.175	2620	9.251	9205	4.261	2012	8.102	654	8.902	852	5.341	320	5.848	269	4.112	313	6.548
$250-500K	72171	2.827	10296	4.568	1538	5.099	5977	4.673	1115	5.428	434	4.703	521	5.138	195	2.533	131	2.945	219	2.498
$500K-1M	53717	2.636	6940	4.087	966	3.942	4124	4.292	745	5.081	250	2.941	371	3.147	141	2.257	98	2.345	143	2.467
$1 - 2M	34564	2.332	4147	3.603	522	3.373	2627	3.9	387	3.773	109	2.638	225	2.899	82	2.998	58	1.506	58	3.611
$2 - 20M	36844	2.654	3735	3.988	410	3.563	2546	4.161	302	3.709	78	4.725	170	3.877	50	4.099	44	1.791	62	3.494
TOTAL *	446155	2.598	66478	3.853	10032	4.348	38775	3.75	7487	4.762	2476	4.463	3249	4.117	1204	3.457	884	2.344	1290	3.488

* Canada Total and Debt:Equity by Size Group include two additional industries, in addition to the ten in Table above, containing just over 8000 SME's (2% of the total)

TABLE 3

COMPARISON OF PROFITS ON SALES AND SALES:ASSETS RATIOS -- CANADA vs. B.C. AND ITS ECONOMIC REGIONS

	Canada Total *		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to
SECTOR	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets
FOREST.	5.20%	1.393	4.20%	1.616	3.50%	1.527	6.20%	1.582	4.30%	1.597	3.90%	1.647	3.30%	1.675	3.20%	1.916	4.80%	1.59	4.90%	2.478
MANUF.	4.90%	1.592	3.70%	1.643	3.00%	1.785	3.80%	1.64	4.10%	1.677	3.30%	1.512	1.30%	1.79	1.50%	1.863	7.80%	1.54	3.90%	1.379
CONSTR.	4.00%	1.527	1.50%	1.367	2.70%	1.352	1.00%	1.379	2.50%	1.373	2.20%	1.364	1.20%	1.42	1.10%	1.269	6.40%	1.33	-1.00%	1.485
TRANSP.	4.30%	1.161	1.50%	1.436	5.00%	1.542	-0.10%	1.418	5.00%	1.562	-1.80%	1.712	3.30%	1.472	6.50%	1.466	8.30%	1.346	2.50%	1.612
WHOLES.	3.10%	2.187	1.90%	2.283	2.70%	2.091	2.00%	2.348	1.10%	2.083	1.90%	1.573	1.20%	2.091	2.10%	2.093	3.00%	2.148	2.80%	2.141
RETAIL	2.30%	2.866	1.40%	2.758	1.50%	2.979	1.60%	2.737	1.20%	2.709	0.90%	2.693	0.30%	2.971	1.40%	2.414	3.30%	2.539	1.30%	2.757
REAL ES.	15.90%	0.259	13.90%	0.229	8.00%	0.341	15.90%	0.21	7.20%	0.307	7.60%	0.481	9.90%	2.999	7.40%	0.42	10.90%	0.357	0.30%	0.308
BUS.SER.	8.00%	1.121	4.20%	1.045	0.70%	1.173	4.40%	1.038	5.70%	0.99	6.70%	1.415	4.80%	0.97	7.40%	1.245	8.00%	1.041	7.10%	1.089
ACCOM.	2.80%	1.374	1.40%	1.162	1.80%	1.212	1.50%	1.217	1.00%	0.996	-2.30%	0.798	2.70%	1.263	1.10%	1.321	2.90%	0.84	-1.70%	1.311
OTH.SER.	5.20%	1.172	2.30%	1.084	3.30%	1.269	1.80%	1.177	2.60%	0.948	-7.40%	0.842	6.00%	1.021	3.50%	1.79	6.20%	0.953	4.80%	1.321
TOTAL	4.00%	1.323	2.80%	1.269	2.60%	1.512	3.00%	1.183	2.40%	1.477	1.10%	1.476	2.10%	1.567	2.50%	1.689	5.30%	1.57	1.60%	1.713

1986	Canada Total *		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
SALES	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to	Profit on	Sales to
SIZE($)	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets	Sales	Assets
10:50K	1.60%	0.228	-2.30%	0.202	-0.70%	0.304	-2.50%	0.17	-5.60%	0.233	0.40%	0.294	-7.70%	0.254	0.20%	0.287	7.90%	0.353	-3.80%	0.32
50:100K	6.80%	0.513	4.00%	0.515	2.60%	0.572	5.40%	0.485	1.90%	0.52	0.90%	0.656	1.00%	0.49	4.70%	0.648	4.90%	0.554	1.80%	0.728
100:250	6.50%	0.606	3.60%	0.807	2.40%	0.976	4.30%	0.715	2.40%	0.899	1.60%	1.053	3.40%	0.975	3.40%	1.168	4.80%	1.067	3.80%	1.133
250:500	5.70%	1.134	3.50%	1.068	3.30%	1.334	3.90%	0.961	2.40%	1.151	2.30%	1.573	3.30%	1.411	3.90%	1.23	3.90%	1.33	2.00%	1.291
500K:1M	5.00%	1.357	3.70%	1.287	3.60%	1.594	4.00%	1.125	2.60%	1.72	2.20%	2.028	3.50%	2.471	3.40%	1.981	4.70%	1.495	2.50%	2.004
1:2M	4.40%	1.543	3.60%	1.52	2.70%	1.749	4.10%	1.404	3.50%	1.797	2.70%	1.919	2.40%	2.188	2.90%	1.843	4.90%	1.786	2.90%	2.22
2:20M	3.21%	1.525	2.10%	1.665	2.20%	2.246	2.20%	1.538	2.30%	2.37	-1.20%	1.746	1.20%	1.703	1.20%	2.67	5.90%	2.064	0.60%	2.373
TOTAL	4.00%	1.323	2.80%	1.269	2.60%	1.512	3.00%	1.183	2.40%	1.477	1.10%	1.476	2.10%	1.567	2.50%	1.689	5.30%	1.57	1.60%	1.713

* Canada Total includes two additional industries, in addition to the ten in Table above, containing just over 8000 SME's (2% of the total)

TABLE 4

COMPARISON OF INTEREST COVERAGE RATIOS AND RETURN ON EQUITY -- CANADA vs. B.C. AND ITS ECONOMIC REGIONS

	Canada Total *		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
SEC-	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return
TOR	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity
FORES	3.761	16.60%	3.2	23.70%	2.753	17.90%	3.999	77.50%	3.223	24.30%	3.17	22.80%	2.831	16.10%	(-ve)	-53.70%	3.645	18.80%	3.704	33.00%
MANUF	3.793	22.50%	2.838	23.10%	2.534	17.30%	2.932	23.20%	2.883	35.00%	2.397	19.30%	1.666	21.00%	1.688	43.50%	4.204	29.40%	2.96	26.10%
CONST	3.437	27.90%	1.797	14.80%	2.551	25.90%	1.541	13.00%	2.707	21.00%	2.495	21.70%	1.882	7.60%	1.74	6.40%	6.073	31.40%	0.153	-6.00%
TRANS	2.449	17.40%	1.544	9.60%	3.147	31.70%	0.957	-0.80%	2.883	33.80%	(-ve	-12.40%	2.321	24.90%	4.37	35.80%	5.062	36.20%	1.888	17.60%
WHOLE	3.85	22.40%	2.846	18.30%	3.102	18.80%	2.889	19.40%	2.081	9.50%	3.021	11.10%	2.168	12.30%	3.117	20.80%	4.018	23.60%	3.738	19.40%
RETAIL	2.983	23.50%	2.266	21.30%	2.397	23.30%	2.408	23.80%	2.053	17.80%	1.781	11.70%	1.244	5.50%	2.322	13.40%	3.927	42.70%	2.062	16.50%
REAL E	1.637	20.70%	1.533	14.30%	1.371	20.10%	1.574	14.00%	1.34	14.70%	1.537	30.90%	1.55	20.60%	1.324	17.30%	1.699	29.50%	1.016	0.30%
BUS.SE	5.119	27.20%	3.056	16.00%	1.38	3.70%	3.144	16.40%	4.14	25.60%	4.607	29.40%	3.654	17.80%	4.546	32.90%	5.851	35.80%	5.199	22.10%
ACCOM	1.684	23.90%	1.325	20.40%	1.452	28.50%	1.347	24.50%	1.272	20.80%	0.579	-16.40%	1.727	88.30%	1.26	10.30%	1.696	17.30%	0.613	24.00%
OTH.SE	2.447	24.10%	1.599	15.80%	2.061	25.90%	1.517	13.60%	1.849	18.20%	(-ve	-84.30%	3.274	31.30%	1.999	24.10%	3.165	26.60%	3.038	21.30%
TOTAL	2.401	19.10%	1.855	17.20%	1.961	21.20%	1.863	16.80%	2.005	20.60%	1.455	8.80%	1.97	17.00%	2.079	19.00%	3.615	27.60%	1.808	12.40%

1986	Canada Total *		B. C. Total		Region No. 1		Region No. 2		Region No. 3		Region No. 4		Region No. 5		Region No. 6		Region No. 7		Region No. 8	
SALES	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return	Int'rst	Return
SIZE	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity	Cov'rge	on Equity
10.50	1.351	1.10%	0.548	-1.20%	0.854	-1.10%	0.494	-0.90%	0.036	-6.40%	1.723	6.20%	(-ve)	-18.00%	1.026	0.40%	2.629	27.90%	0.213	-9.40%
50.10	2.649	12.70%	1.674	11.60%	1.587	9.20%	2.163	13.20%	1.413	8.30%	1.203	4.00%	1.163	3.70%	2.133	18.20%	2.164	22.20%	1.477	7.00%
100.2	2.957	19.50%	1.928	17.80%	1.76	23.50%	1.982	16.30%	1.686	19.90%	1.552	16.50%	2.236	21.30%	1.168	27.40%	2.659	26.00%	2.558	32.40%
250.5	2.848	24.60%	2.009	20.90%	2.17	26.90%	1.983	21.40%	1.812	20.60%	2.035	20.40%	2.314	29.00%	2.597	16.80%	3.093	20.40%	1.764	9.00%
500K	2.718	24.90%	2.109	24.10%	2.221	28.20%	2.051	23.80%	2.047	27.50%	2.262	17.90%	2.471	22.40%	2.703	21.90%	3.167	23.40%	2.483	17.00%
1 : 2M	2.634	22.90%	2.156	25.30%	1.951	21.00%	2.167	27.90%	2.37	29.80%	2.047	20.10%	2.188	18.00%	2.304	21.30%	4.04	22.00%	2.732	29.20%
2 : 20	2.161	17.85%	1.739	17.60%	1.962	22.60%	1.697	17.30%	2.325	25.10%	0.468	-11.80%	1.703	13.10%	1.533	16.20%	4.217	34.00%	1.315	5.90%
TOTAL	2.401	19.10%	1.855	17.20%	1.961	21.20%	1.863	16.80%	2.005	20.60%	1.455	8.80%	1.97	17.00%	2.079	19.00%	3.615	27.60%	1.808	12.40%

* Canada Total includes two additional industries, in addition to the ten in Table above, containing just over 8000 SME's (2% of the total)

TABLE 5

REGIONAL BREAKDOWN OF FUNDS SOURCED BY SMALL COMPANIES, 1986

	ALL SMALL CO'S		********** FUNDS FROM VARIOUS SOURCES **********											
	TOTAL $ SOURCED		FUNDS FROM				SHAREHOLDER				SALE OF FIXEDASSETS		GOV'T GRANTS	
		(% DIST.	OPERATIONS		TERM DEBT		LOANS&ADVANCES		NEW EQUITY		AND INVESTMENTS		& OTHER	
REGION	($ m.)	IN B.C.)	($ m.)	(% OF TOT.)	($ m.)	(% OF TOT.)	($ m.)	(% OF TOT.)	($ m.)	(% OF TOT.)	($ m.)	(% OF TOT.)	($ m.)	(% OF TOT.)
CANADA *	29973		10031	33.47	7760	25.89	4050	13.51	1335	4.45	6699	22.35	98	0.33
B.C. TOTAL	3359	100.00	981	29.21	918	27.33	656	19.52	21	0.62	780	23.23	3	0.09
REGION #1	569	16.94	138	24.31	174	30.64	105	18.51	2	0.35	149	26.17	0	0.00
REGION #2	1609	47.89	499	31.00	365	22.72	324	20.12	17	1.07	404	25.09	0	0.00
REGION #3	627	18.68	196	31.19	199	31.65	108	17.17	1	0.09	122	19.41	3	0.41
REGION #4	108	3.22	36	33.06	50	46.20	15	13.98	0	0.04	8	7.02	0	0.00
REGION #5	172	5.12	51	29.78	52	29.96	27	15.65	1	0.51	41	23.97	0	0.16
REGION #6	85	2.53	18	21.39	28	33.25	34	39.84	0	0.00	5	5.41	0	0.00
REGION #7	68	2.02	23	34.46	20	29.31	9	13.40	0	0.00	15	22.68	0	0.00
REGION #8	76	2.25	17	22.52	17	22.25	18	23.31	0	0.00	24	31.92	0	0.00

REGIONAL BREAKDOWN OF FUNDS APPLIED BY SMALL COMPANIES, 1986

	ALL SMALL CO'S		********** FUNDS APPLIED TO VARIOUS USES **********											
	TOTAL $ APPLIED		PURCHASE OF		REPAYMENT OF		PAYMENT		REPAY SH'LDER		REPAYMENT OF		NEW INVESTMENT	
		(% DIST.	FIXED ASSETS		TERM DEBT		OF DIVIDENDS		LOANS&ADVANCES		SH'LDER EQUITY		& OTHER	
REGION	($ m.)	IN B.C.)	($M.)	(% OF TOT.)	($M.)	(% OF TOT.)	($M.)	(% OF TOT.)			($M.)	(% OF TOT.)	($M.)	(% OF TOT.)
CANADA *	28429		10799	37.99	6656	23.41	2307	8.11	4379	15.40	540	1.90	3749	13.19
B.C. TOTAL	3390	100.00	1157	34.13	1014	29.92	183	5.40	790	23.29	15	0.43	231	6.82
REGION #1	589	17.37	255	43.27	151	25.67	52	8.85	90	15.33	1	0.21	39	6.66
REGION #2	1609	47.46	445	27.66	406	25.22	103	6.39	489	30.39	11	0.65	156	9.68
REGION #3	624	18.41	211	33.87	257	41.12	14	2.16	119	19.11	3	0.42	21	3.33
REGION #4	112	3.30	49	43.34	37	32.98	3	3.08	20	18.14	0	0.05	3	2.46
REGION #5	179	5.28	81	45.16	60	33.48	4	2.46	31	17.16	0	0.12	3	1.71
REGION #6	82	2.42	37	45.67	28	33.70	0	0.26	14	17.22	0	0.00	3	3.11
REGION #7	61	1.80	34	55.67	22	36.78	0	0.13	3	4.76	0	0.00	2	2.63
REGION #8	72	2.13	25	35.18	32	43.91	1	1.25	10	14.27	0	0.00	4	5.26

* Canada Total includes two additional industries, in addition to the ten in Table above, containing just over 8000 SME's (2% of the total)

APPENDIX C

OTHER INPUT TO THE TASK FORCE

REPORT OF THE TASK FORCE ON

SMALL BUSINESS PROGRAMS AND SERVICES

TASK FORCE ON SMALL BUSINESS PROGRAMS AND SERVICES

INPUT FROM ASSOCIATIONS OR INDIVIDUALS

ASSOCIATION OF BRITISH COLUMBIA PUBLIC LIBRARY DIRECTORS

BRITISH COLUMBIA LIBRARY ASSOCIATION

CAMOSUN COLLEGE BUSINESS DEVELOPMENT CENTRE

CANADIAN BANKERS ASSOCIATION

THE CERTIFIED GENERAL ACCOUNTANTS ASSOCIATION OF BRITISH COLUMBIA

EXECUTIVE OF THE ECONOMIC DEVELOPMENT ASSOCIATION OF BRITISH COLUMBIA

INVESTMENT DEALERS ASSOCIATION OF CANADA

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MR. DON ALLEN, REGIONAL DATA CORPORATION, OTTAWA

MR. RAY BRIDGER, ROY CORP BUSINESS CONSULTANTS INC.

LINDA CHARLES, COMMUNITY FUTURES PROGRAM, EMPLOYMENT AND IMMIGRATION CANADA

INDIVIDUAL MEETINGS WITH A SELECTIVE SAMPLE OF ENTREPRENEURS AT THE START-UP STAGE OF BUSINESS (ENTERPRISE CENTER, VANCOUVER)

WRITTEN SUBMISSIONS AND PERSONAL DISCUSSIONS WITH MUNICIPAL OFFICIALS AT THE UNION OF BRITISH COLUMBIA MUNICIPALITIES CONVENTION, PENTICTON.